

VZCZCXR08812
OO RUEHDE
DE RUEHDE #1010/01 0561327
ZNY CCCCC ZZH
O P 251327Z FEB 06
FM AMCONSUL DUBAI
TO RUEHC/SECSTATE WASHDC IMMEDIATE 8629
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHAD/AMEMBASSY ABU DHABI PRIORITY 1307
RUEHDE/AMCONSUL DUBAI 1549

C O N F I D E N T I A L SECTION 01 OF 02 DUBAI 001010

SIPDIS

SIPDIS

STATE FOR NEA/ARPI, EB/IFD/OIA, EB/TPP/BTA
STATE PASS USTR FOR DOUG BELL
COMMERCE FOR BIS MARY O'BRIEN

E.O. 12958: DECL: 2/25/2016

TAGS: EINV ETRD PREL AE

SUBJECT: DUBAI PORTS WORLD CHAIRMAN: DUBAI CONTROL, BUT NOT PURCHASE, OF P&O'S U.S. OPERATIONS TO BE DELAYED

REF: ABU DHABI 650

CLASSIFIED BY: Jason L. Davis, Consul General, Dubai, UAE.
REASON: 1.4 (b), (d)

¶1. (C) Consul General contacted Dubai Ports World (DPW) Executive Chairman Sultan bin Sulayim (SBS) February 25 to seek clarification of DPW's February 24 announcement that it was willing to delay taking over P&O's U.S. operations. Did this mean that DPW's purchase of P&O would be delayed? SBS stated emphatically that a delay in the purchase, or its "closing" date, currently scheduled for March 2, was not possible. The U.S. portion of the P&O sale was "only 10 percent" of the overall deal; there were "people working for us all over the world who are in limbo," and who would be susceptible to recruitment efforts by DPW's competitors if the sale were put on ice for a month or more. "We could end up owning a bunch of new ports but not have enough people to run them," SBS concluded, adding that delaying the entire sale of the U.K. company would be "not only unreasonable, but actually impossible."

¶2. (C) Rather than delaying the actual sale, SBS said, DPW had decided to "segregate" P&O's U.S. operations. This meant that DPW would "not exercise any management control" over P&O's U.S. operations "pending the outcome" of discussions with Congress and the administration, which would likely mean a delay of 30, or possibly even 45 days. In practical terms the decision meant that Michael Seymour, P&O's current "President of North American Operations," would be the top decision-maker for the affected ports. There would be no changes in procedures or personnel during this period. SBS said there had been no request from the USG or the UAEG for DPW to delay its takeover of U.S. ports; rather, the decision had been taken "at our own initiative, as a gesture to make sure there was no confrontation" between DPW, Congress, and the administration.

¶3. (C) CG asked SBS about the financing that would be involved in the purchase. SBS reported that there was no funding coming from the Dubai Government or ruling family. The bulk of the financing would come from commercial banks, and would be backed by income from Dubai Ports and Free Zone Corporation. The banks had initially wanted Dubai government guarantees, but DPW had refused this, preferring to keep it an entirely commercial transaction. The remainder of the funding -- an additional USD 3.5 billion -- was being raised through the issuance of bonds ("suquq").

Background on DPW History and Structure

¶ 4. (U) Giving some background on DPW's role managing port operations domestically and internationally, SBS said that up until the creation of DPW last year, Dubai Ports Authority (DPA) had been responsible for domestic operations, and Dubai Ports International (DPI) had been responsible for overseas ports. In September 2005 DPA and DPI had been merged into one new entity, DPW. DPW's domestic operations were at Jebel Ali and Port Rashid in Dubai, and at the ports of Abu Dhabi and Fujeirah. CG asked SBS whether DPW was responsible for port management operations at Dubai Creek. SBS said it was not: Dubai's Ports, Customs and Free Zone Corporation (PCFC)'s main presence at Dubai Creek was the large Dubai Customs operation there. Even prior to the merger with DPI, DPA had not been involved in managing off-loading and on-loading of cargo onto the (mainly small wooden) dhows on the Dubai Creek.

¶ 5. (U) SBS explained that while DPW itself played no role in Creek operations, a small legacy DPA unit there was responsible for ensuring adherence to port regulations. Elaborating, he explained that DPA had originally included two elements: (1) a large port management element related to handling of cargo and containers, and (2) a regulatory element responsible for ensuring adherence to government regulations and port ordinances. After DPA's merger with DPI, it had been clear that the new entity, DPW, should not be in the "governmental" business of enforcing regulations and imposing fines on violators. DPW had thus recently signed an agreement with the Dubai Government according to which a new PCFC spin-off, to be known (logically but nonetheless somewhat confusingly) as the Dubai Ports Authority, would be responsible for regulatory enforcement at Dubai's ports. Asked whether this new arrangement was already in place, SBS said "yes, it has been done." (Note: We understand from a contact at Dubai Customs that while the deal may be technically "done," in that it has been

DUBAI 00001010 002 OF 002

approved and signed, it is not scheduled to be announced until the first or second week of March.)

DAVIS